

OMNICHANNEL: A WINNING PROPOSITION?

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Abstract

Carrefour opted to pursue an omnichannel strategy in order to navigate the disruption to which the grocery retail market has been subject to. Several challenges persist, but if Carrefour manages to overcome them by rethinking how it currently deploys its assets by leveraging on external partners it will position itself for success in the future.

Keywords

Carrefour, ecosystems, omnichannel, disruption, strategy

Omnichannel: a winning proposition?

Introduction

Traditionally, the success of a firm in the retail industry was determined to a large extent by the scale it was able to create. More concretely, it was imperative to do so at a local level, with firms that succeeded at this being able to obtain operating margins of around 4% (Kamel, Tager, Ringer, Cheris, & Ormiston, 2019). Carrefour was able to build a large footprint in the key regions it operates in, namely in Western Europe and Latin America. It is not surprising then that its historical operating margins were in line with that of other successful retailers.

Changing customer habits and preferences as well as fierce competition have been two major forces responsible for changing the landscape in the traditional grocery retail industry. Recognizing the need to adapt, Carrefour implemented a strategic plan with the creation of an “omni-platform of reference” being at the center of it. Mr. Bompard, the group’s CEO, went as far as stating that the creation of such a platform was a necessary condition for the future success of the firm (Bompard, 2018). Considering the industry changes that Carrefour is facing, the choice to create its own ecosystem makes sense – this strategy is widely regarded as being one of the most effective methods to cope with disruption (Lyman, Lef, & Wright, 2018). In fact, Carrefour is not the only firm implementing such a strategy. As it turns out, multiple firms across different industries are doing exactly the same.

The reason why ecosystems are seen as a good strategy for companies to deal with disruption is because they often foster innovation. By combining forces and leveraging on the capabilities of each partner, ecosystems allow firms to offer new services and products thereby creating a unique value proposition. The pursuit of innovation is in most cases the main reason why firms are building ecosystems. Secondary motives are the acceleration of revenues growth, expansion of the customer base and enabling data-analytics (Lyman, Lef, & Wright, 2018)

The potential benefits that an omnichannel can offer to Carrefour are many. Yet successfully building such a platform is no easy task as it implies completely rethinking its traditional business model. The stakes to get things right are high – estimates suggest that up to 30% of the all retail profits are at risk (Kamel, Tager, Ringer, Cheris, & Ormiston, 2019)

Pure Ecosystems Players vs Scale Fighters

Currently in grocery retailing a distinction can be made between two types of ecosystems. On the one hand, there are the “pure ecosystem players”, a category to which the likes of Amazon and Alibaba belong to. The aim of these companies is to become a one-stop shop for customers in the broadest sense possible. At the same time, they provide third party vendors access to a large customer base and facilitate by offering support services in areas such as logistics, advertising, data-analytics and payments (Kamel, Tager, Ringer, Cheris, & Ormiston, 2019). In recent years pure

ecosystem players expanded into grocery retailing – Amazon acquired Whole Food Market and Alibaba operates the Hema banner.

On the other hand, there are the so called “scale fighters”, a category to which Carrefour and the majority of traditional grocery retailers fall under. Aware of the fact that it is highly unlikely that they will be able to create a pure ecosystem these firms are now aiming to transition from a multi-channel to an omnichannel ecosystem (Kamel, Tager, Ringer, Cheris, & Ormiston, 2019). In essence what this means is that they are attempting to integrate all of their channels, both offline and online in order to offer customers one seamless experience.

Meeting Customers High Expectations

In almost every industry there appears to be a shift from the physical to the digital world. This is also the case in the retail industry – in 2023, e-commerce is expected to generate sales in the order of \$ 6500 B globally, almost six-fold of what was sold online in 2014 (Statista, 2020). Across all retail categories, e-commerce currently accounts for approximately 20% of all sales. However, this does not apply to the grocery market where online sales only represent only 3% of total revenues (Supermarketnews, 2019). One of the main reasons for the online grocery market to still be at such an early stage it because it has not yet met consumers requirements (currently the segment is worth \$ 189 B but is expected to increase \$ 1112 B in 2027 (Grand View Research, 2020)).

Consumers, especially in Western Europe and North America, increasingly place more value on convenience. Nowadays, customers are used to be able to order anything, anywhere at anytime and they hold online grocery to the same standards (PWC, 2020). Indeed, the fact that the bulk of grocery sales is still coming from physical stores suggest that there is a “convenience gap” between the online/offline channels.

Decomposing the customer journey into its several stages makes it clear that the cause of this gap originates in the “browsing and shopping” phase (Cain & Paratore, 2019) Many shoppers have a preferred store they go to and have become familiar with it – they often now exactly where to find whatever it is they need. Even when consumers go to a store to which they have never been to before, they will still be able to navigate them relatively easily: products are usually grouped together by the same categories, promotions are signaled by flashy visual cues, and it is almost common knowledge that the more expensive premium brands are almost always displayed at eyeline whereas the cheaper white label occupy the less prominent positions.

Comparing with a visit to the store, shopping online is a much less friendly experience. For one, it is more difficult to compare products and their prices. Also, it is not uncommon for consumers to find out that a product is out of stock only at the check-out stage after having spent considerable time filling their virtual basket. In order to unlock the value that e-commerce can provide, grocery retailers will have to find solutions to improve the digital experience of consumers and issues surrounding the cost of fulfillment and last mile delivery (Oliver Wyman, 2018).

Carrefour, lacking the in-house capabilities to address these issues by itself, resorted to strategic partnerships. One of the goals of its alliance with Google is to improve the user experience of Carrefour's online channel by allowing consumers to do their groceries through the Google platform including the "smart-assistant" *Alexa* (Agnew, 2018). The issues surrounding the fulfilment of online orders and last mile delivery are being addressed by investing in dark stores – semi-automated order fulfilment centers – and by forming alliances with Uber and Glovo, both tech start-ups that specialize in the home-delivery of food products.

The future role of physical stores

It is clear that e-commerce will have a relevant role in the future of grocery retailing. This is further highlighted by the investments that grocery incumbents have been making. However, focusing too much on the development of new business poses the risk of neglecting current ones. And doing so would be a mistake as brick-and-mortar will continue to be important. The acquisition of Whole Food Market serves again as case in point - a pure-player, especially one with such a successful ecosystem as Amazon, would not have acquired a traditional grocery retailer if it didn't think that physical stores would have a place in the future of grocery retail. That is not to say that stores will be continue to operate in the same way as they do currently. Their role will have to evolve around:

- Value: focus on low prices and value-for money
- Convenience: facilitate access to stores by carefully choosing their location
- Experience: online channels will never be able to provide the same experience as offline shopping – how does one judge the "freshness" of a product behind a screen?

Winning the hearts of grocery shoppers

The fact that e-commerce currently accounts for a relatively small portion of the overall grocery market acts as an advantage for incumbents. In a survey, consumers who had not yet used the online channel were asked if they had to do so, which banner they would use. An overwhelming majority (96%) answered that they would shop at a traditional grocery retailer. Moreover, 86% of them said they would shop at a banner whose store they had already visited (Cain & Paratore, 2019)

In the same survey, 17% of the consumers said that they shopped at a different store in the recent past, and 25% percent thought that they might do so in the near future (Cain & Paratore, 2019). In a way, familiarity is equal to convenience as it simplifies the overall shopping experience. One implication of this is that consumers are unlikely to routinely shop at different stores (even if they are from the same banner) – the unfamiliarity of the new stores acts as a strong disincentive to do so.

Physical stores are essential to create brand loyalty, and this loyalty extends to all the channels of the brand. A common measure used to quantify consumer loyalty is the "Net Promotor Score" where consumers are asked how likely they are to recommend a banner to others. The NPS of Carrefour

has been increasing since the implementation of the transformation plan (Carrefour, 2020), suggesting that the firm is capitalizing on its incumbent advantage.

Going Digital

The success of an omni-channel hinges on the experience, in store as well as online, that grocers are able to offer to their customers. Digitalization can do a great deal to improve that experience. For one, by allowing customers to shop across all channels, companies can collect a significant amount of data. This can in turn be used to get a better understanding of consumer behavior and of what their preferences consist of. Leveraging on this information it is possible to personalize the shopping experience both online and offline.

One simple aspect that is very much relevant for grocery shoppers, especially those that are yet to engage in e-commerce would be to provide them with the option to compose a digital shopping-list and be able to easily make price comparisons. Customers say that this would add greater value to the shopping experience than for instance product recommendation algorithms (source: Bain). If grocery retailers would be able to offer such features through an application for smart-phones which could be used for both online and offline shopping, then that would be one step towards creating a seamless customer experience across all channels.

Another aspect which a comprehensive customer profile can improve is demand forecasting. This is particularly relevant when it comes to food products. Currently, perishable products account for almost 65% of all food-product sales of traditional grocery retailers whereas only 6% of pure-ecosystem-players (Cain & Paratore, 2019). Given the trend for increasing demand for fresh products these shares will almost certainly increase in the future. Due to their perishable nature, it is critical to manage inventories correctly as this can significantly impact profits.

Besides customer experience, supply chain optimization, technology also offers the potential for improvements in the marketing sphere. From their digital footprint, it is possible to target individual customers with personalized messages, significantly improving the effectiveness of campaigns.

In crucial aspects of digitalization is data-analytics. In this regard, incumbents lag behind pure-players who have become very much proficient in it. The alliance of Carrefour with Google also targets to address this short-coming. By opening an innovation lab in Paris and learning how to use artificial intelligence and partnerships, Carrefour hopes that the partnership will accelerate the digitalization of the firm.

Conclusion

After some years where the company has seen its performance decrease, thanks to its transformation plan it appears to be back on the right track. The omnichannel is being built around customer demands, with convenience and offering quality products being its core values.

It is being smart about the battles it fights: it recognized that it would be unable to build an ecosystem like the ones of Amazon and Alibaba. And whereas pure-players have ventured into grocery retailing, Carrefour has been focusing on the areas in which it has an advantage – working closely with its suppliers, the company has been increasing its offering of Fresh and Organic products. Parallel to this its investing in its private label products. By adapting its assortment, Carrefour is able to cover the demands of different customer groups: from those who are conscious about their environmental impact, those who are concerned about healthy eating to those who seek value for money.

At the same time, it is rethinking how it can put its existing assets to their best use. In some cases, this requires making changes, such as moving away from the format that has been traditionally at the heart of the firm's business (hypermarkets) towards formats that are of greater value to the omnichannel (convenience stores). The supply chain is another area where investments are being made in order to make it more efficient and to better fit the new business model.

In the areas where it is lacking capabilities, Carrefour is relying on its partners. Its alliance with Google arguably its most important as the firm wants to become digitally savvy, whereas tech firms specializing in home delivery are key partners to smoothen the issues regarding this aspect of e-commerce. If Carrefour succeeds in setting-up a solid omnichannel platform, and it is quite capable of doing so, it will occupy a comfortable position in the grocery retail market.

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